ebruary 18, 1959

Investor's Reader

For a better understanding of business news

PENNSALT CHEMICALS COMPOUNDS RICHER PROFIT MIX (see page 19)

CAL FLIES INTO BLACK

The big smile on the face of Robert Forman Six is because he celebrated his 21st anniversary as Continental Air Lines president with the announcement of the largest quarterly net operating income ($746,000) in Continental history along with the first net profit for any quarter since September 1957. To be specific, "CAL" earned $251,000 or 33¢ a share in the last three months of 1958 as against a $163,000 loss the equivalent 1957 period.

The turnabout was accomplished by a 27% rise in revenues while the climb in operating expenses was held to less than 15%. Along with "tight cost control" Bob Six credited "aggressive promotion" of the line's new turboprop Viscount IIs on its main traffic arteries between Chicago, Kansas City, Denver and Los Angeles.

The upswing still left Continental with a full-year net loss of $338,000 v a $96,000 (13¢ a share) profit in 1957. However, president Six noted nearly $2,200,000 in higher depreciation and interest charges resulted from the transition to turbine planes.

Continental started 1959 with a "big, profitable January. Our business was of course much bigger than normal because of the American Airlines strike. Even without this diverted business, as best as we can figure we would have run about 7½% above forecast and been definitely in the black." Continental hopes the year will bring higher fares plus a CAB decision to transfer ten small cities from its system to subsidized local carriers. (Continental lost $1,500,000 on its DC-3 operations to such cities last year.) Meantime the line will expand Viscount service and hopes to start Boeing 707 jet flights by June. Two weeks ago CAL's first 707 was "rolled out" at Boeing's Seattle plant, well ahead of schedule.

All in all, Bob Six foresees "new traffic highs" and expects to "operate at a profit in 1959 but whether the profit level will be adequate depends largely on CAB decisions." Over the longer term Continental faces another large problem in passing earnings gains on to stockholders: two convertible debenture issues can be turned into 2,300,000 new common shares which would sharply dilute the equity of the 846,000 shares presently outstanding.

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Stocks Split at Faster Pace

Big Board 'Melons' Voted Already Outnumber Splits Effected in All 1958

WITHIN THREE DAYS near the end of last month directors of eight Big Board-listed companies announced intentions to split their stocks. Tobacco king R J Reynolds and mountain-climbing "bridge road" Denver & Rio Grande Western led the parade. The next day Allied Kid, Eastern Stainless Steel, Warner-Lambert and Zenith rushed into the act, followed the third day by Freeport Sulphur and Stauffer Chemical. If this was not an alltime splitting record, no oldtimer could be found to prove otherwise.

In fact the whole year seems set on setting a new high in stock divisions. By presstime splits of 2-for-1 or better had already been announced for no less than 13 Big Board stocks and a score of issues traded elsewhere. Though no one can accurately forecast action on any specific securities there is little doubt the months ahead will bring a further flood of splits. One list of popular but strictly unofficial candidates is found on pages 2 & 3. Some recently completed or announced splits are shown on pages 4 & 5.

The present phenomenal pace contrasts with a sharp lag last year. Only twelve Big Board stocks completed splits, fewest in over a decade. An overall Standard & Poor's compilation found only 63 splits approved—the smallest annual total since 1949, another recession year.

The tally points up the scarcely surprising fact directors are most apt to favor splits when stock prices are high, business improving and management has confidence in the future. This matter of timing may be one reason why the stockholder loves splits though theoretically they add no value to his holdings. The number of his shares multiplies but the market price of each share is

correspondingly divided and his percentage of ownership in the company does not change.

Despite such arithmetic, most folks like "two hatchecks instead of one." Aside from psychology, there are certain practical benefits. A split brings the issue down to a more popular price range which often leads to a better and more stable market as well as wider distribution

SOME POSSIBLE . . .

All lack official confirmation

Aetna Life Insurance
Air Reduction
Allied Chemical
Aluminum Company
American Agric Chem
American Home Products
American Stores
American Tobacco
Arkansas Louisiana Gas
Atlantic Coast Line RR
Bell & Howell
Bestwall Gypsum
Caterpillar Tractor
Central Soya
Colgate-Palmolive
Corning Glass
DuPont
Eastman Kodak
Emhart Manufacturing
Firestone Tire
First National Stores
Florida Power & Light
General Electric
General Foods
Goodrich
Goodyear Tire
Gulf Oil
Haloid-Xerox
Heinz
Hugoton Production
IBM
International Paper
International Salt
International Textbook
Johnson Service
Kansas City Southern Ry
Kennecott Copper
Liggett & Myers
Lily-Tulip Cup

(a point helpful to management when it seeks new equity financing).

But above all, a split usually reflects the feeling things are going well with the company—often concretely demonstrated by an accompanying boost in the dividend rate or at least promise of future action.

Denver & Rio Grande will raise its quarterly payment from 62½¢ to the equivalent of 75¢ on the old shares (a quarter on each of three new shares). Similarly Freeport Sulphur will up its effective rate from 75¢ to 90¢; Parke, Davis from 50¢ to 75¢; American Photocopy Equipment from $1.20 to $1.50. And of course American Telephone will forsake its historic $9 annual rate to pay $3.30 each on three times as many shares after the April split.

Bull Market Bonus. Corporations are naturally more inclined to consider splits when share prices climb to rarefied levels. When high-priced, widely owned AT&T finally decided to split after decades of vigorous refusal, it accelerated a trend. It also encouraged some Wall Streeters to scour through the financial pages and label virtually every stock selling over 75 (the assumed new level for Telephone when the existing stock sold around 225) a split candidate. Some companies of course may prefer to keep their stock in higher brackets. And in a class by itself is IBM. Despite repeated large stock dividends which have turned each 1939 share into thirteen shares today, the stock has moved up so fast it nonetheless sells over 500.

Another type of special case is

Zenith which split 2-for-1 only last March (lowering the price from 140 to 70 at the time). With the stock back up close to the 200 level, directors last month recommended a new 3-for-1 split.

While most fissioning stocks sell in the higher brackets, there are exceptions. Perhaps the most unusual is British Petroleum whose American Depository Receipts sold around 16 last year. Despite low price and huge capitalization (101,000,000 shares outstanding) the stock was split 2-for-1 last Fall, chiefly for considerations of international politics.

Stock Twist. Some splits are in the form of dividends. Thus a 100% dividend equals a 2-for-1 split, 200% equals 3-for-1. The effect is the same, only the bookkeeping differs. Similarly there is no practical difference between a 50% stock dividend or 3-for-2 split; a 25% dividend or 5-for-4. Accountants and lawyers aside most Wall or Main Streeters consequently use the terms interchangeably.

Some examples of good-sized stock dividends: Flintkote stockholders next month will pave the way for a 50% handout; Chicago's Harris Bank has just paid 33⅓% as has Electric & Musical Industries.

Many companies have also paid small stock dividends. A few random examples: Duke Power 15%, Armour and Cessna Aircraft 10%, National Casket 5%, Gulf Oil 4%, CBS 3%, IBM and Columbia Pictures 2½%, Cities Service 2%.

Some companies like Sun Oil make small stock payments annually. Addressograph which has paid a 3% stock supplement each year since 1951 continued this 3% rate last Fall on the increased shares outstanding after September's 3-for-1 split. Booming electronics & missile specialist Raytheon which has never paid cash, last week declared 5% in stock for the second year running.

Meantime Schenley Industries last October declared a 5% stock divi-

. . . STOCK SPLITS

Litton Industries
Lorillard (P)
Louisville & Nashville RR
McIntyre Porcupine Mines
McKesson & Robbins
McLouth Steel
Merck
Mesabi Iron
Minneapolis-Honeywell
Minn Mining & Manuf
Montana Power
National Lead
National Steel
National Tea
Newmont Mining
North American Car
Owens-Illinois Glass
Pennsalt Chemicals
Pennsylvania Glass Sand
Pittsburgh Plate Glass
Polaroid Corp
Republic Steel
Reynolds Metals
Richfield Oil
Shell Oil
Sherwin-Williams
Smith, Kline & French
Sunshine Biscuit
Tampax Inc
Texas Company
Texas Instruments
Thiokol Chemical
Union Carbide
US Gypsum
US Steel
Vick Chemical
Western Maryland Ry
White Motor
Wrigley (Wm Jr)
Youngstown Sheet & Tube

dend for each of the next four quarters to supplement its cash payments. Directors have continued to vote the regular 25¢ quarterly—but for only a quarter at a time.

While stock splits and dividends generally bring cheer, the reverse version usually brings gloom. Actually, reverse splits (e g, one new share exchanged for three old) also leave the holder's equity unchanged —but leave the holder unhappy (IR June 11, 1958). One trio which reduced the number of their shares in 1958 by ratios ranging from 1-to-4 to 1-to-25: American Machinery Corp, Barium Steel, Television Industries. Scurry-Rainbow Oil voted last week on a 1-for-7 reversal.

But relatively few stockholders

SOME RECENT STOCK SPLITS . .

COMPANY	THE SPLIT	APPROX DATE	WHERE LISTED	MAIN BUSINESS
Addressograph-Multigraph	3–1	Sept 16	Big Board	Addressing equip
Allied Kid	2–1	Pending	Big Board	Leather
American Air Filter	2–1	Vote Mar 10	Over-Counter	Filters, dust control
American Chicle	2–1	Dec 24	Big Board	Chiclets, Dentyne
American Hospital Supply	2–1	Vote Apr 18	Over-Counter	Distributor
American Mach & Metals	2–1	Vote Mar 24	Big Board	Gauges, small motors
American Photocopy	3–1	Apr 14	Amex	Desk top copying mach
American Tel & Tel	3–1	Vote Apr 15	Big Board	Bell telephone
Ampex Corp	2½–1	Sept 12	Big Board	Taped TV
Anchor Hocking Glass	2–1	Jan 26	Big Board	Glassware, bottles
Bank of Delaware	2½–1	Mar 20	Over-Counter	No 2 in Del
British Petroleum	2–1	Oct 23	Amex	Iran & elsewhere
Commonwealth Natural Gas	2–1	Vote in Apr	Over-Counter	Pipes to Richmond, Norfo
Calif Water Service	2–1	Vote Mar 18	Over-Counter	Bakersfield, Stockton etc
Denver & Rio Grande	3–1	Vote Apr 8	Big Board	Railroad
DiGiorgio Fruit	2–1	Dec 11	Pacific	Grows & markets
Duquesne Light	2–1	Jan 26	Big Board	Pittsburgh area
Eastern Stainless Steel	2–1	Vote Mar 31	Big Board	Baltimore area
Florida Power	3–1	Nov 25	Big Board	St Pete & West Coast
Food Machinery & Chem	2–1	Nov 24	Big Board	Indust chem
Freeport Sulphur	3–1	Vote Apr 20	Big Board	Sulphur, Cuban nickel
General American Trans	2–1	Jan 26	Big Board	Manu & leases tank cars
General Cigar	3–1	Vote Apr 9	Big Board	White Owl, Robert Burns
Great Western Financial	2½–1	Jan 20	Amex	Savings & Loan
Hagan Chem Controls	2½–1	Okd Jan 29	Over-Counter	Water treatment
Ideal Cement	3–1	Feb 2	Big Board	Big in West
Indian Head Mills	2–1	Vote Feb 20	Over-Counter	Cotton
Inland Steel	3–1	Vote Apr 22	Big Board	Based in Chicago
Internat Tel & Tel	2–1	Mar 5	Big Board	Electronics, Lat Amer tel
Interstate Motor Freight	2–1	Dec 1	Over-Counter	Large East, MW trucker
Itek Corp	5–1	Jan 29	Over-Counter	Optics, elec for missiles
Jewel Tea	2–1	Feb 27	Big Board	Food chain
Johnson & Johnson	2½–1	Jan 12	Big Board	Bandaids, Modess
Kellogg Company	2–1	Dec 30	Over-Counter	Corn flakes
Kroger Company	3–1	Jan 21	Big Board	No 3 food chain
Libbey-Owens-Ford	2–1	Vote Apr 21	Big Board	Auto & other glass
Life Ins Co of Va	2–1	Sept 26	Richmond	"Industrial" life
Lockheed Aircraft	2–1	Feb 2	Big Board	Inner & outer space

have cause to worry about such reversals. Far more wonder whether & when their company will split. Company officials are traditionally reticent to commit themselves. For instance Claude H Webster, National Tea executive vp recently countered: "A split is always possible, but nothing now indicates it."

Some are more positive on the negative side. Last week Lukens Steel vice president Stewart Huston denied the company was considering any split. And in a philosophical mood, able J C Penney chairman Albert Hughes reflected: "I don't think there's any cause for a stock split unless either the stock is way high or earnings are going up and you can pay a higher dividend."

. . . ON & OFF THE BIG BOARD

COMPANY	THE SPLIT	APPROX DATE	WHERE LISTED	MAIN BUSINESS
Medusa Portland Cement	2–1	Jan 5	Midwest	In Midwest
Nachman Corp	2–1	Nov 11	Amex	Bed springs
Natl Starch	2–1	Vote Apr 28	Amex	Starch, adhesives
N Y & Honduras Rosario Min	3–1	Feb 18	Amex	Silver & gold
Northwest Bancorp	3–1	Vote Mar 26	Midwest	Bank holding
Nuclear-Chicago Corp	2–1	Dec 20	Over-Counter	Radiation detection
Oklahoma Gas & Elec	2–1	Nov 21	Big Board	Serves 1,100,000 pop
Parke, Davis	3–1	Dec 1	Big Board	Drug products
Parker-Hannifin	2–1	Vote Feb 11	Over-Counter	Couplings, valves
Pemco Corp	2½–1	Dec 19	Over-Counter	Porcelain enamel
Penn Pwr & Lt	2–1	Vote Apr 20	Big Board	Allentown & NE Pa
Pet Milk	2–1	Jan 15	Big Board	Evaporated milk
Pfizer (Chas)	2½–1	Vote Apr 20	Big Board	Antibiotics, vitamins
Pillsbury Company	2–1	Pending	Big Board	Flour products
Pitney-Bowes	3–1	Vote Apr 15	Big Board	Postage meters
Prentice-Hall	3–1	Dec 10	Amex	Textbooks
Reichhold Chemicals	2–1	Vote Mar 23	Big Board	Synthetic resins
Reynolds (R J) Tob	2–1	Vote Apr 8	Big Board	No 1 in cigarets
Salada-Shirriff-Horsey	3–1	Vote Mar 6	Montreal	No 1 Canada marmalade
Savannah Sugar	4–1	Vote Mar 19	Over-Counter	Georgia refiner
Seaboard Surety	2½–1	Vote Apr 2	Over-Counter	Fidelity & Surety
South Carolina National	2–1	Okd Jan 20	Over-Counter	Quarter-billion bank
Southwestern Elec Service	2–1	Nov 7	Over-Counter	East central Texas
Stauffer Chemical	2–1	Vote Apr 15	Big Board	Basic heavy chem
Super-Valu Stores	2–1	Jan 22	Over-Counter	Wholesale grocer
Thrifty Drug Stores	2–1	Jan 26	Over-Counter	Calif chain
Trans Mountain Oil Pipeline	5–1	Sept 29	Toronto	Alberta to Br Col, Wash
Tucson Gas Elec Lt & Pwr	2–1	Jan 23	Over-Counter	Serves sun country
Union Oil & Gas of La	2½–1	Mar 2	Over-Counter	In La, Tex
US Vitamin	2–1	Dec 19	Amex	Also drug specialties
Universal Controls	2–1	Oct 1	Amex	Parimutuel equip
Universal Winding	2–1	Feb 20	Over-Counter	Textile machinery
Walter (Jim) Corp	3–1	Nov 14	Over-Counter	Prefab "shell" homes
Warner Company	2–1	Dec 31	Over-Counter	Sand & gravel
Warner-Lambert	2–1	Vote May 12	Big Board	Cosmetics, drugs
Western Mass Companies	2–1	Vote Feb 27	Over-Counter	Elec holding co
Wilmington Trust	4–1	Feb 2	Over-Counter	Largest in Del
Zenith Radio	3–1	Vote Apr 28	Big Board	TV sets

NATIONAL ECONOMY

Target: GM

AFTER YEARS of rumor, the Justice Department has launched its long-expected antitrust investigation of General Motors. Among other things the Government asked for records going back to 1929. It will probably take years for any decision but one of the rumored aims is a spin-off of GM's top division—Chevrolet (IR, Sept 5, 1956).

SHIPPING

The Likes of Lykes

FOR THE FIRST 57 years after its founding at the turn of the century the company now titled Lykes Bros Steamship Company was little known outside the shipping industry. And even most maritime men were limited to guesses on Lykes finances. Meantime the modest partnership formed by two brothers (later joined by the five younger Lykes boys) "to engage in commerce between the US and Cuba" evolved into one of the nation's biggest shiplines with routes from New Orleans and other Gulf ports to most of the world.

Then last Spring Lykes made its first public stock offering of 400,000 shares and soon after the stock was listed on the Big Board. The prospectus confirmed the company's reputation for solidly prosperous operations. With $90,000,000 voyage revenues (before subsidy) in 1957, it ranked second only to US Lines whose big passenger liners hiked total revenues to $146,000,000. But Lykes men like to say: "In terms of cargo units operated, it's been nip & tuck between us and US Lines for years." No doubt more important to stockholders, in most years Lykes has been able to earn substantially more than its rival.

Two weeks ago the top Lykes brass forsook their homeport with its pleasures of Breakfast at Brennan's and Dinner at Antoine's, instead manfully downed the indifferent lunch inflicted at the New York Security Analysts. While 70-year-old chairman Joseph T Lykes (youngest and sole survivor of the seven Lykes Brothers) enjoyed an after-dinner cigar, 58-year-old president Solon B Turman briefed the gathering.

Lykes operates on six major trade routes from the Gulf to the Caribbean, Britain, Western Europe, Mediterranean, Orient (as far west as Singapore), South & East Africa. An affiliate jointly owned with W R Grace serves the north and west coasts of South America. Summed up Solon Turman: "Presently we make about 300 sailings a year so almost every day a Lykes ship clears for some foreign destination."

He shrugged off a question on relative profitability of the routes: "It changes from year to year. It depends on the political climate in major markets and the level of industrial activity."

Last year, he noted, business was "exceedingly brisk to the Mediterranean and more or less normal to Britain and the Caribbean." But

Lykes navigator Turman

overall, Lykes started to feel the sharp decline of foreign trade last Spring and total voyage revenues for the year dropped 20% to $70,000,000. Net income was cut to $13,000,000 or $3.42 a share from $4.51 the year before. However a gain on the trade-in of nine vessels brought final 1958 results to $4.70 a share. While "hesitant to predict 1959 results at this time," Solon Turman sees "prospects of an improvement in the freight market * * * I presently have a little more optimism than in recent weeks."

Partner Sam. Like other lines plying regular schedules on "essential trade routes," Lykes has an operating differential subsidy agreement with the Government intended to make up for the higher costs of running a US flag ship. But earnings over 10% of "capital necessarily employed in the business" go into a special reserve fund with half this excess subject to Government "recapture" at the end of a ten-year accounting period. Uncle Sam was able to recapture 100% of the subsidy paid Lykes in 1938-47; and 43% of the 1948-57 outlay.

These provisions also tend to stabilize profits since in fair years the recapture set-aside ($408,000 in 1958) is much smaller than in good ones ($6,100,000 in 1957); in poor years with income less than 10% of capital employed, previous set-asides could in effect be re-recaptured by the company. Another favorable point: as more money is plowed back into the business, capital employed and hence unrestricted profits grow steadily larger. At Lykes, the key "10% level" expanded from $1.24 a share ten years ago to $2.84 last year.

With Government OKays, Lykes has deposited an extra $7,000,000 in the reserve funds each of the past four years. Like the company's share of required deposits, these funds are freed from current income tax but can then be used only

for certain authorized purposes—primarily for new ships.

Under its agreement with the Government, Lykes is to replace its 54-ship fleet with 53 new vessels to be ordered during the next ten years. A construction subsidy payable directly to the builder will make up for the higher cost of building in US rather than foreign yards. The new ships are expected to cost Lykes around $300,000,000, the Government $200,000,000.

Florida-born, VMI & University of Virginia-trained Turman proudly notes Lykes has already $141,000,000 stashed away in its reserve funds. With added cash to become available from retained earnings, trade-ins, etc, he foresees "no need for any borrowing until 1963 or 1964." But for future reference he is "watching closely the interesting developments" in financing under which Grace Line sold 100% Government-guaranteed ship mortgages to the public (IR, June 11, 1958).

The expensive construction program reinforces the natural Lykes conservatism on dividends. With the public stock sale (which still leaves 70% of the 3,800,000-share all-common capitalization closely held), Lykes went on a dollar-a-year basis which provides a yield around 4% at the current stock price of 24. Solon Turman good-humoredly parried the obvious question: "Considering our building obligations, we will continue this fine $1 dividend and if things improve down the line and we don't have to pawn anything, we may eventually do somewhat better."

BUILDING MATERIALS

Armstrong Advance

ALMOST A CENTURY ago, the brothers Armstrong set up a factory to produce cork products at Lancaster amid the rich farmlands of the Pennsylvania Dutch countryside. Today $167,000,000-assets Armstrong Cork Company is the nation's No 1 producer of linoleum and tile flooring with operations which fan out from 16 domestic plants to five overseas subsidiaries. In its growing up process, the 95-year-old company has also added a wide range of building materials and an extensive line of glass & plastic containers and closures.

Building products now account for 60% of Armstrong sales; the other 40% is divided between industrial specialties (such as resins, finishes, asphalt) and packaging materials. Growth of all three segments depends directly on population and income trends but over the past few years the packaging division has enjoyed the "most constant growth."

In the past decade, Armstrong sales have risen some 50%. Fundamental to this sales expansion are the company's extensive research activities. This year Armstrong will spend "the greatest amount in its history on basic and applied research." The Armstrong research push has paid off in a host of new ready-for-market products such as Futuresq, an opalesque plastic tile; Armalite, a plastic foam insulation material; Armotex, a new type of reconstituted leather; Minaboard mineral wool building board.

New patterns for floor tile

Armstrong also owes its hefty sales volume to a distribution system tailored to meet different market needs. The company sells its flooring line to both wholesalers and retailers while packaging & industrial specialty items are distributed solely through wholesalers. Last year Armstrong set up a contract installation division to install its products for builders and industrial customers. Meantime the company spends twice as much on advertising as any competitor to make the Armstrong name the "best known" in the flooring industry.

As a result of slow housing starts early in 1958 and a low auto production year Armstrong volume for 1958 is estimated a bit below 1957's $246,500,000. However due to cost control and debugging of new plants earnings are expected to recover to $2.50-to-2.60 a share from the $2.10 a share profit of 1957. This would still be below the record $2.81 reported for 1955 when sales were $249,000,000.

As for the future vp William Hoadley comments: "The economy will see further recovery. With housing starts estimated at 1.1-to-1.2 million and automobile production between 5¼ and 5¾ million, 1959 will have a stimulating effect on our industry whereas 1958 had a depressing effect." For Armstrong, this stimulation could mean a new earnings record.

Johns-Manville Builds Up

LEADING asbestos supplier Johns-Manville added one more shingle to its house last month. It entered the competitive quarter-billion-a-year fiber glass industry through the acquisition of subsidiary L O F Glass Fibers Company of Toledo from former parent Libbey-Owens-Ford.

Four-year-old L O F Fibers adds to the JM household $26,000,000 in

sales, $1,000,000 in profits plus a fast-growing line of glass fiber acoustical materials, corrosive control products, glass reinforced plastic panels and fiber glass textile yarns. Even more important according to vice president Don LeRoy Hinmon "the buy gives JM an organization known for its rapid development of production techniques. They have a production process wherein $1 of invested capital nets $10 in sales—quite a switch from the usual $1 for $1 level."

The new unit brings to ten the total of JM operating divisions with over 22,000 employes throughout the US and Canada. The diversified construction supplier lists over 400 product lines including Transit asbestos and cement pipe, Marinite marine fireproofing, Celite diatomaceous earth and Flexboard asbestos and cement wallboard.

At its research & engineering center at Manville, NJ ("the largest in the industry") JM conducts a "tremendous program in missile research." Don Hinmon specifically cites development of Min-K (IR, March 19, 1958) an insulating material with "a lower conductivity than still air which makes possible the solving of serious heat transfer problems in aircraft and missiles. It was a true scientific breakthrough." Meantime the L O F Fibers research center at Waterville, Ohio contributes such firsts as synthesis of quartz into Q-Felt, a fibrous insulating product with a high temperature stability.

While the bulk of JM product lines has held up well, the lag in construction pulled down 1957 sales and earnings. However, though last year brought another 1% dip in volume to $304,000,000, earnings recovered to $21,900,000 or $3.06 a common share from $17,800,000 ($2.48) in 1957. But this is still well short of the $25,000,000 ($3.50) record in 1956 and below the earnings of four other years since 1950. Meantime the sharp second-half recovery in JM operations plus general market optimism have carried the 7,200,000 common shares to 55 on the NYSE, up 21 points from last year's low and only four points from the alltime peak set in 1956.

On the current outlook vp Hinmon notes many economists view 1959 as "the best year in construction industry history with an estimated investment of over $70 billion in new building." This would obviously be good for JM. Moreover the company expects a 50% increase in fiber glass sales in 1959 fostered by growth of such products as plastic and fiber glass boats, furniture, construction panels and decorative textiles. According to Don Hinmon all this should add up to "increased sales and earnings in 1959."

AUTO PARTS
Budd Drives On

WHILE MOST auto component makers count on profits from their diversification ploys, auto frame maker Budd Company of Philadelphia currently finds its ventures into other fields more of a hindrance than a help. To whit: while its auto division managed to drive in the black last year, other

divisions (atomic & defense work, railroad cars, plastics, testing systems) wallowed in red ink. As a result the company showed a $760,000 deficit for the first nine months of 1958.

However in the last quarter the spunky auto division managed to double its earnings to more than $2,600,000. This completely wiped out the loss and brought earnings for the full year to 30¢ a share. But it was still drastically short of 1957 (itself the second lowest year in a decade) when the company earned $8,860,000 or $1.91 a share and the recent high of $13,800,000 ($3.34) of 1955. Despite the sharp earnings drop, Budd lowered its dividend only a dime last June to 25¢ quarterly. The stock has climbed back to around 20 on the NYSE, midway between last Summer's low and the alltime high of 1955.

Budd is a leading US producer of automobile frames which it supplies to all the auto makers. Frames plus such parts as wheels, hubs, brake drums, dies, jigs accounted for around three-quarters of the company's $228,000,000 volume last year. Budd officials expect the auto end of its operations to continue smoothly. "The Rambler and the Lark have increased their schedules." Moreover in August Budd signed a contract with Chrysler to provide all the frames for its 1960 models (it currently supplies one-third). However the contract will last only until Chrysler builds up its own capacity to 50% of its requirements after which Budd will supply half the Chrysler frames.

Most of the other Budd divisions are still in the red. However a company official reports: "Things are picking up. All divisions except defense should be in the black by the end of this year." Some hopeful signs:

- While the rail car order book is currently empty, Budd has bid on a $25,000,000 order to manufacture subway cars for Philadelphia. "We're very hopeful. We expect to hear daily." Meantime the company feels: "The railroads sometime just have to improve their Washington and New York commuter service."
- Subsidiary Tatnall which makes testing systems for industrial use "should reach the break-even point this year. In November we sold 14,000 strain gauges compared to only 1,800 at the beginning of the year."
- In the defense field Budd shares a research contract with General Electric for work on an airborne nuclear reactor shield, reports a prototype contract is in the "immediate offing." It also works with Thiokol Chemical on solid fuel engine testing, has a sub-contract to manufacture fuel containers for the first stage of the Minuteman solid fuel missile. A Navy contract to study high strength, high heat-resistant stainless sandwich structures for missiles and rockets may "grow into something in the future."

Budd has also bought a 14% interest in Solar Aircraft which this month received a $1,000,000 contract from the Convair division of General Dynamics (see below) for

the metal honeycomb components for the B-58 bomber. It already has a contract from North American for the B-70 chemical bomber components. (Budd itself is also interested in honeycomb components). As for future plans for Solar "we are continuing to investigate it."

AIRCRAFT

General Dynamics Scores in Aircraft, Subs, Atomics & Gases

THOUGH the name was coined but seven years ago, General Dynamics has become virtually a cliche on stock and news tickers. And even citizens who cannot identify the corporate creator have no doubt thrilled to the sub-polar journey of the *Nautilus* last Summer and to the super-global rounds of the four-ton Atlas 10-B which relayed worldwide "Peace on Earth" greetings from President Eisenhower before Christmas.

These exploits ranging from hundreds of fathoms below to 914 miles above sea level were only two of a host of highly touted 1958 achievements by $571,000,000-assets General Dynamics and its products. A few of the others:

- An earlier Atlas proved itself as the first ICBM to arc 6.300 miles to its target.
- On the civilian side of the hangar at the aircraft & missile minded Convair division, the first 880 jet transport rolled off the final assembly line in mid-December, a full two weeks ahead of schedule.
- The Adam of the atom fleet, the *Nautilus* continued to make history with over 135,000 underwater miles logged since its 1954 launching at the Electric Boat division yards in Groton, Conn. Meantime Electric Boat's fifth (and largest) A-sub the *Triton* hit the waves in August, is due to be commissioned this Spring.
- The General Atomic division's compact research & training reactor Triga was chosen as feature exhibit at last Fall's Atoms for Peace conference in Geneva.
- Electronics subsidiary Stromberg-Carlson teamed with Haloid-Xerox (IR, Nov 26, 1958) to develop a high-speed continuous printer.
- Subsidiary Canadair, one of Canada's two largest airframe makers, wound up with perhaps its most successful year. It climaxed a nine-year production program for Canadian Sabrejet fighters (advanced versions of the North American Aviation F-86) which are now seeing duty in nine different nations; big orders from the West German government brought final output to a highly profitable 1,815.
- General Dynamics itself finished what it figures "was our second best year." Sales are estimated around 1957's record $1.6 billion. Due to heavy writeoffs on the 880 program earnings are figured at $3.75-to-4 a share *v* the alltime high of $4.80 on fewer shares outstanding in 1957. Over 800.000 shares have been converted since GD called in its 3½% debentures in January 1958.

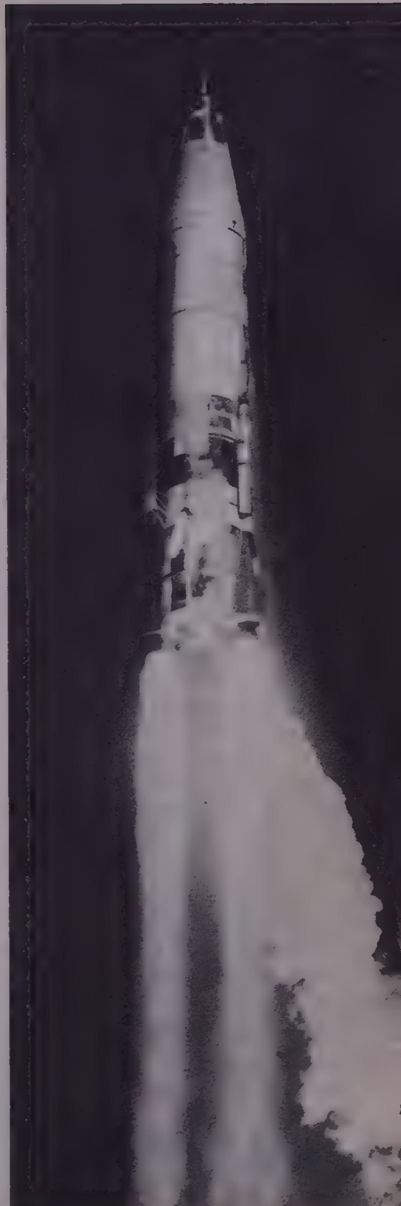
If 1958 was spectacular, 1959 and the future promises to be no less so. Last week a company representative outlined some of GD's most promising programs. He has

great hopes for the intermediate-range Convair 880 and its counterpart the 600. The planes are not directly competitive with the ocean and continent-spanning Douglas DC-8s and Boeing 707s but aimed at roughly the same market as the Boeing 720s and the Lockheed turboprop Electras.

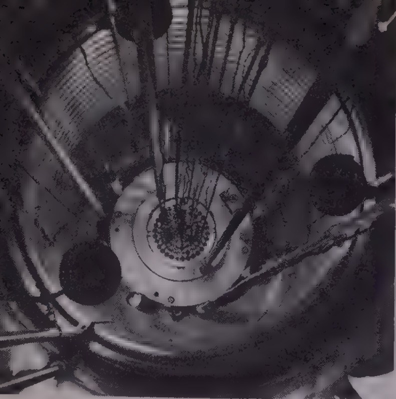
General Dynamics started commercial development of its planes a good year behind Boeing and Douglas, has 78 orders for the new craft which is obviously short of breakeven. But "we have no doubt we'll soon get many more. We've crowded Mach 1 so closely we'll have a first-line plane for eight-to-ten years. You make more money when you can keep a plane in production that long—as with our 240-440 series."

GD is reluctant to estimate a breakeven point on its new commercial craft but chief competitor Boeing which has so far outsold not only GD but also Douglas with its jets last month admitted actual development costs were higher than previously estimated. Since its commercial models are highly similar to the jet tankers it builds for the Air Force, Boeing already has written off some of its engineering costs against the military contracts. In addition much of the same tooling used to build the military craft is also utilized in commercial jet production—which gives Boeing somewhat of an advantage over its competitors in the commercial jet field.

Profits in Canada. While Canadair has finally run out of Sa-



Atlas soars skyward



GD Triga

bre business, its CL-44 troop and cargo carrier promises to be another lucrative program. The Canadian government has ordered several of these planes and GD also hopes to sell them commercially.

Canadair is currently one of GD's more profitable divisions. For one thing since it is encouraging the development of Canadian industry the Canadian government allows somewhat better profit margins on defense work than the US. Foreign sales of Canadian-made craft can be quite profitable too. Also, "we have one of the most modern plants in the industry" which helps keep operating costs down. But except for General Atomic which is still primarily in research work and somewhat below the breakeven point, GD also racks up good profits in the states.

Backlog in US. GD holds $1.7 billion in firm orders with another $770,000,000 in contracts under negotiation. This includes a number of recent plums such as the $31,400,000 contract awarded Convair last month to build an advanced version of the Navy's carrier-borne Terrier missile. Convair already holds contracts for one version of the Terrier as well as its more sophisticated brother, the Tartar.

In October it won another missile job—to build the cargo-carrying Lobber for the Army. Industry sources also indicate GD leads competition for the Army's Mauler tactical missile and is developing Redeye, the Army's new short range surface-to-air missile system as well.

Last month Electric Boat landed a $105,000,000 contract for the first of a heavier and more advanced A-sub to carry the Navy's solid-fuel Polaris 1,500-mile missile. The sub specialist already has contracts for two of the earlier type Polaris subs, hopes "more may come our way."

One of GD's most challenging jobs is a contract to develop and build an upper stage for the Atlas to be used to probe outer space. The current contract is for $7,000,000 in fiscal 1959 "but this could go up quite a lot, later." Though Convair's Wizard missile hitter was discontinued last year, work is again underway at Convair for an antimissile missile system.

The President's recent 1960 budget message also held good news for General Dynamics. Though it is a long way from message to money, the budget calls for $1 billion or enough funds to build approximately 40 more Convair B-58 Hustler supersonic bombers. Additional funds for the Atlas are also requested.

Another prospect is the nuclear bomber. Trade sources hint at fur-

ther allocations for this mighty weapon. GD's competition for this project is Lockheed and both companies have been asked to submit proposals to the Pentagon. But defense news is not all good. The Air Force recently announced it would place no new orders for the F-106 Delta Dart, Convair's jet interceptor. However the current contract which has about two years to run will be completed.

Ambition in Civvies. With its continued heavy concentration on military work General Dynamics is still far from its oft-mentioned goal of a 50-50 military-commercial division. In fact last month the Pentagon released figures citing GD as No 2 defense contractor (after Boeing), with total awards of $1.4 billion or 6.4% of all defense business in the 1958 Government fiscal year. Roughly 80% of GD net still comes from the Government.

However it still takes long lean looks at any chance to alter this. Last Fall it entertained merger thoughts with Chicago's Material Service Corp which supplies concrete, sand, lime, gravel and other building supplies. Talks have been suspended but General Dynamics is still looking—often at electronics firms "but they're awfully expensive price-earnings wise. It makes it tough to do business with them." Many electronics firms trade at 30 or more times earnings while GD at 60 is only around 15 times.

GD's last big "commercial" merger was Liquid Carbonic which it acquired in 1957. This No 1 producer of carbon dioxide and industrial gases "is coming along well; it set a new record last month." To help "round out our market coverage at Carbonic," in December GD bought Industrial Air Products, a small Southern gas producer.

While future projects should bode bigger profits for the giant aircrafter, it will still be writing off some hefty development costs on its 880 program this year—"about the same as last year though it will slacken somewhat toward the end." Hence although sales are expected to climb to a new record and earning should "somewhat" better 1958's they are figured at somewhat less than the record $4.80 of 1957.

RETAIL TRADE
First in the Fortyninth

FRESH FROM another record year during which profits mounted 8% to $33,400,000 or $2.63 a share on only a 5% sales rise, $2.2 billion-a-year Safeway Stores Inc is out to conquer new frontiers. The 2,117 store chain plans to construct "a minimum of 200 new stores" in 1959. While a number will replace "outmoded locations," at least two will be a thousand miles from the nearest other US Safeway unit.

In what Safeway believes is the first Alaskan entry by any major national food chain, two supermarts will be erected in Anchorage. Ground will be broken in May and the cash registers are expected to start ringing sometime between November and early next year. The Alaskan stores will be part of the Seattle division, receive supplies on truck trailers moved by boat.

WE HEAR FROM . . .

Depletion Credit

TULSA

GENTLEMEN:

Although I've read dozens of articles encompassing thousands of words on the depletion subject affecting the oil and minerals industries, I started reading your "Depletion" feature in the January 21 issue of Investor's Reader with some skepticism that here again would be words and words without meaningful understanding.

I couldn't stop reading it, even against my apprehension, for it read as the clearest, most understandable, most reasonable review of the problem I have ever read.

Both pro and con it was good, and win, lose or draw, you have done the extractive industries a great favor by such an able editorial presentation.

Very truly yours,
LUTHER WILLIAMS
Sunray Mid-Continent Oil Company

Titanium Limits

CORNING, NY

GENTLEMEN:

I would like to correct a statement in your issue of December 24, 1958 that titanium has a melting point of 850°F.

As T E Perry and R J Gormy of Republic Steel point out *(Iron & Steel Engineer*, February 1955) pure titanium melts at 1,727°C (3,140°F). Its transition point is 882.50°C (1,588.5°F)—the temperature at which alpha titanium changes to the beta variety with a corresponding change in crystal structure.

Please accept my compliments on an excellent and highly readable publication.

Very truly yours,
WILLIAM W WRIGHT
Market Research Department
Corning Glass Works

In the heat of competition we mixed up melting points. Though melting and transition points are far higher, 850°F was considered the maximum temperature at which titanium could satisfactorily be used.—*Ed.*

Preferred Anchor

LANCASTER, OHIO

GENTLEMEN:

The very fine article on Anchor Hocking Glass in the January 21 issue * * * concisely presents the story of the corporation to the investing public in a manner which I find agreeable and informative.

Just as a point of information, we are not purchasing our preferred stock at the redemption price of $107 per share. Such purchases as have been made were at prices substantially below $107, and reflected our appraisal of the money market in its various stages. This would be the only basis on which further shares would be purchased in excess of the requirements of our preferred stock retirement fund.

I would like to compliment you on the sustained excellence of Investor's Reader. Keep up the good work.

Very truly yours,
WILLIAM V FISHER, President
Anchor Hocking Glass Corporation

Sorry for the figure mix-up. While the preferred is callable at 107, shares can currently be picked up on the NYSE around 92.—*Ed.*

Out of Tune

ORLANDO

GENTLEMEN:

Having a sizeable percentage of my modest estate in Hammond Organ, I was pleased to see your story in the January 7th issue. I was disappointed with the shocking inaccuracy in the instance of the following quote: "To further swell sales tone, Hammond has added a limited number of other harmonizing electric musical instruments. One of the most successful: the Solovox . . . etc, etc." Manufacture of the Solovox was discontinued around ten years ago—I believe.

Very truly yours,
THOS B LIMBOCKER
Lt Col AUS (Ret)

Reader Limbocker is indeed right. The Solovox has long since been dropped from the Hammond music chest.—*Ed.*

Smith, Kline & French Bonanza

Philadelphia Druggist Thrives On Tranquilizers and Stimulants

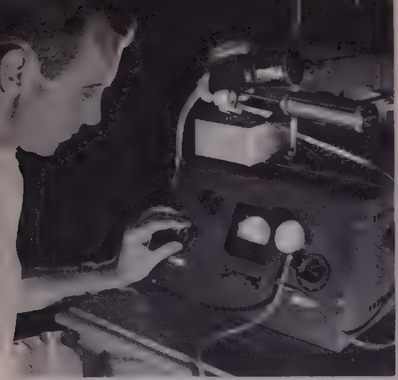
A little over two decades ago Atlantic City druggist Harry B Leeds carefully stowed away his 40 shares of Smith, Kline & French common. His original purchase of ten shares for less than $1,000 early in 1929 had been multiplied by a 4-for-1 split later that bullish year and was already worth $4,800 by 1938. Chances are investor Leeds never realized what a much bigger bonanza lay ahead. At any rate, the stock was still in the safe when his widow Harriet died last year. However, thanks to stock splits in 1947, 1950 and 1954, the holdings had by then expanded into 4,800 shares worth $477,000. After the usual tax deductions and fees the Atlantic City Court which reviewed the estate approved $390,773.73 for distribution to the Leeds heirs.

WHEN druggist Leeds stashed away his stock the venerable Philadelphia firm was only a small drugmaker just beginning to expand its specialty ethical drug line. Its stock was mostly held by the families of the three founders. Today Smith, Kline & French is vastly different. Since 1938 assets have swelled from $2,600,000 to more than $82,000,000; revenues have expanded almost 14 times from a mere $8,900,000 to the record $124,100,000 last year; net income has multiplied even faster, from $530,000 to 1958's high of $20,963,000 or $4.33 a share.

The 1958 result compares with $4.24 earned in 1957. The year-to-year gain would have been greater except for a 17¢ a share deduction in 1958 because the company retirement plan was switched from pay-as-you-go to funded. The gain despite the extra deduction surprised many Wall Streeters. President Walter Munns attributes the good showing to "nothing in particular. We just had a better December than we had budgeted for." He is reluctant to predict 1959 results but "sees nothing in the immediate future which would change our pattern of growth over 1958."

While 16% of sales is in wholesale products, SKF is primarily a producer of ethical drug specialties. About 70% of volume comes from items which affect the central nervous system: tranquilizers such as Thorazine, Compazine and Thoradex; stimulants like Benzedrine, Dexedrine and Dexamyl. The remaining 30% come from hormones and sulpha drugs plus specialties to treat nasal, skin, allergy and blood pressure disorders.

As in most drug companies the SKF forte is research. In fact it spends a larger percentage of sales in research than any other company in the industry which releases such figures—namely 10%. This program has paid off. Almost 80% of volume today comes from products less than six years old and 65% from



SKF rat pulse check

specialties less than four years old. Some new items in the SKF medicine chest include Stelazine for treatment of the more severe psychotic cases, Visorbin, a vitamin product which aids in the absorption of drugs into the human system and Temaril which is used to relieve rashes and itches.

Research Surge. SKF continues strong on research, this year plans to spend about $12,000,000, a million more than last year. President Munns notes the increase is a "catching-up process" following expansion of research facilities in recent years. In 1950 SKF spent less than $2,000,000.

Most of the current research funds will be devoted to mental health and central nervous system drugs, synthetic hormones and other steroids. As a supplement to its stateside program the company is setting up an independent research organization in Britain.

To cash in on its research accomplishments SKF is expanding its sales staff. It now has over 500 personal service representatives or "detail men" who drop in on physician customers and prospective customers several times a year to discuss use of company products. This custom is a logical follow-up to another sales promotion gimmick: direct mailing of samples and other material. This practice was first started by SKF, has now become standard within the entire ethical drug industry.

Smith, Kline & French stock has also had a healthy growth. The 4,800,000 common shares command a hefty 99 on the Big Board, eleven points below the record high scored last year and 20 times the 1948 level. At such a price the Philadelphia drugmaker has oft been mentioned as a split candidate (see page 1). However president Munns maintains: "While we are alive to the stock's position and are giving considered attention to it we have no ideas on this at present one way or the other."

INTERNATIONAL ECONOMY
* * * Join 'Em

THE OLD political, economic and plain human adage about what to do "when you can't lick 'em" is now practiced by the Elgin National Watch Company. The company has long and vociferously complained about the inroads made by foreign (i e, Swiss) competition. Two weeks ago Elgin announced it has applied to the Swiss government for the right to manufacture and assemble watches in Switzerland "in line with the company's policy of being in a position to procure watches, components and accessories from the most economical sources."

CHEMICALS

Bill Drake's Planning Adds New Profits Flavor To Pennsalt Finances

EVEN IN the growth-happy chemical industry, 1958 was not a year for many new profits peaks. One company to defy the recession however was medium-sized ($95,000,000 assets) Pennsalt Chemicals Corp. When the Philadelphia chemist's 1958 annual report is released early in March it is expected to herald earnings close to 20% higher than the $2.40 a share netted in 1957 and in the neighborhood of the peak $2.92 brought down in 1956. The feat is even more outstanding since 1958 sales are figured somewhat below 1957's record $80,000,000.

The 1,300,000 shares of Pennsalt common have anticipated the good news. They rose from a 1958 low of 49 to a recent alltime high of 85, currently trade around 76. With 96 years of uninterrupted dividend payments (the sixth longest record for all Big Board stocks, second longest for NYSE industrials), the company currently pays 40¢ quarterly plus a 25¢ year-end extra.

Behind the new Pennsalt records are a man and a plan. The man is 45-year-old William Plummer Drake who took over as president and chief executive officer in 1955. The plan is the reorganization program Bill Drake inaugurated and carried out to give the conservative 108-year-old chemical firm a more dynamic forward look. President Drake puts it: "We inherited a strong company which stood for good things. We want to develop that image into one of a progressive, profitable chemical company."

First off, Bill Drake changed the company's name from Pennsylvania Salt Manufacturing Company (IR, Aug 16, 1950) to the "more descriptive" Pennsalt Chemicals. Then came a wide range of other changes —from auditors, legal counsel, insurance brokers, financial counsel, advertising agency, etc, to a complete internal overhaul and a product & plant expansion.

The program was no easy task for the youngest president in company history. However when he took over the top job Drake had a 21-year record of Pennsalt service in his favor—longer than all but one predecessor president.

Maine-born Drake first came to Pennsalt as a summer trainee after his sophomore year at Bowdoin. He returned to the same job the following Summer. Last week, sitting back in his sunny modern office overlooking Penn Center Plaza, he reminisced: "In those days you could really work a trainee." After graduation as an economics major in 1936, he joined Pennsalt permanently as a plant maintenance worker, three years later switched to sales. He advanced steadily, early in 1955 was made executive vp and a director. Five months later he moved into his present job.

Triple P. Bill Drake describes his job as "the three Ps: people,

planning and profits." The people phase, aimed at "fitting round pegs into round holes," forms one of the bases of the Drake philosophy. "A corporation is people, not merely a charter." The program involved reorganization from a traditional "line" set-up into eight divisions—four operating and four staff. Each operating division is responsible for production, sales, but particularly for return on investment.

The eight division heads who with Drake make up the management nucleus are "an unusual group of people" according to their tall, good-looking leader. "Only one has the same job he held four years ago. However they're not outsiders; except for one they have all been here a number of years. The average for the nine of us is 17 years service. Six out of nine are chemists or chemical engineers by training—that's desirable in a chemical company. Our average age is only 47. This has enabled us to formulate a sound long-range program, not a crash one. The Good Lord and shareowners willing, we hope to be around to see it through."

Pennsalt prexy Drake

When Bill Drake and his associates began to shape their program in 1955, Pennsalt could already look back on more than a century of chemical progress. From a small caustic soda plant (original product: household lye) founded in 1850 by five young Philadelphia Quakers, it had grown into a respected but reserved company with a beaker full of basic chemical products made chiefly from salt and fluorine materials. It also offered various chemical specialties—bleaches, sanitizers, industrial cleaners, metal finishing products, detergents, insecticides, dry cleaning compounds, etc.

Pennsalt also had an excellent raw material base. Extensive salt beds under its Wyandotte, Mich plant can supply all the company's Eastern needs for 100 years. In 1955 Pennsalt teamed with Hooker Chemical to form Solar Salt Company to insure a supply of salt for its Pacific Northwest plants from solar evaporation units on a 12,000 acre property at Great Salt Lake, Utah. Pennsalt also owns extensive fluorospar (for fluorine compounds) reserves near its Calvert City, Ky plant. It imports still other fluorospar from large deposits on its Mexican properties near San Luis Potosi. "We could supply all the fluorospar we need if we wanted to but we think it's better to buy some."

Planned Research. To build on Pennsalt's sturdy base, Bill Drake and his cohorts went to work on the second P, planning. "We

tried to develop a program good for Pennsalt. We knew the company's many assets as well as its limitations. We didn't try to emulate the giants." One major asset: an established research program which chief planner Drake soon overhauled, streamlined and expanded.

He figures: "There's much divergence as to how you define research, so we don't like to put a specific dollar sign on it. However I can say the budget for what we call research is 60% more than it was in 1955. Moreover, we've not only increased our spending, we've culled out the chaff on various projects. Now we tailor our experiments to lines in which Pennsalt has proficiency and some advantages over its competitors—distribution, know-how, technology, plant, scientific group, raw materials, etc."

One result is Pennsalt has expanded further into fluorine products and specialty products. For instance, fluorine items accounted for 18% of sales in the first nine months of 1958 *v* 11% of 1955 volume. Specialties brought in 27% of sales in the same 1958 period, one percentage point more than their share of smaller 1955 sales. Meantime, chlorine, caustic soda & hydrogen lines have been outdistanced, now account for 24% of sales compared to 26% while sulphur compounds make up only 5% instead of 8% in 1955. (In both cases dollar volume is slightly higher).

Fluorine Focus. Bill Drake charts: "We don't see any decrease in our other activities, but fluorine products should have a more rapid rate of increase. Textbook-wise fluorine is old, commercially it's new."

Fluorocarbons are in fact the glamor queens of the chemical industry. Already they have scored importantly as refrigerants, as the propellants which provide the push for aerosol pushbutton cans and as building blocks for other fluorine-based compounds such as plastics. Perchloryl fluoride—a new compound developed exclusively by Pennsalt—shows promise as an oxidizer for high energy rocket fuels and as an ingredient of less toxic, less habit-forming drugs. Ultimately fluorocarbons & fluorides are expected to do everything from adding life to tires to keeping clothes clean.

However Bill Drake cautions: "Fluorine tickles people's imaginations but there's a lot of work to be done before we can really use fluorine commercially at low enough cost. I'm confident it's a comer but it's not a get-rich-quick thing."

So far, three other chemists (duPont, Union Carbide, Allied Chemical) are active in the fluorocarbon field. Competition is "keen." However Bill Drake figures Pennsalt has something of an edge as its Isotron [refrigerant & aerosol propellant] plant with more than 50,000,000 pounds annual capacity is "almost a pipeline operation. We have hydrogen fluoride and chlorine at one plant, fluorospar deposits 20 miles away."

The Isotron plant is but one segment of Pennsalt's ambitious construction program. Since 1955 the company has invested over $30,000,000 in new and improved

plants (see cover), plans to spend over $20,000,000 more by the end of 1960. "We will continue to spend $10-to-11,000,000 a year for the foreseeable future."

To finance the initial part of this hefty undertaking the company sold $15,000,000 of 3.45% debentures in 1955—another departure from its former conservatism. Total long term debt outstanding: $17,200,000. Since then expansion has been paid for out of Pennsalt's healthy cash flow. In 1957 internal cash flow (depreciation plus retained earnings after dividend payments) was $6,800,000; in 1958 it came to $7,900,000 plus additional proceeds from sale of an unprofitable fertilizer division and a water company.

The Third P. According to Bill Drake this construction is one of two big factors which account for Pennsalt's improved profits. "As new lower cost facilities come to the profits stage they help loosen the inflationary profits squeeze, begin to level off inflationary effects. You have to spend a lot of money in this business just to stand still—let alone go ahead."

He held this staunch faith even in 1957 when profits slipped by one-sixth. The drop was caused partly by onset of the sharp recession in the second half of 1957, partly by heavy start-up expenses. These proved even heavier than expected when the first Isotron plant developed involved problems which took time to solve. However Pennsalt managed to work out the difficulties successfully before its later units went on stream. But as Bill Drake told stockholders at the time: "Our profits will be far better than they would have been without the benefit of the new plants."

This optimism was borne out by the impressive 1958 comeback which reflected not only the benefits from new plants and products but also "the second big factor"—a vigorous cost cutting program. Formulated "in the cool of the evening" to be used if the general economy declined 10% for several months running, plan "B" was put into effect when the recession hit. Examples of cost cuts: "We now fill only half the floor space at Penn Center we once did and sublet the other half. Cutting out needless paper work saved about $50,000 a year—or 2¢ a share." Judges cost-conscious Drake: "We can't let up on the economies effected. The 1959 outlook is encouraging but spotty. We'll continue to play it close to the vest."

President Drake also plays it close on 1959 earnings projections. But with the general business pick-up and more plants coming in this year, Wall Streeters feel the company will net something in the neighborhood of $3.50 a share. In any case skipper Drake's plans for Pennsalt will continue to keep him too busy to do as much sailing as he'd like on his 43-foot schooner. "Normally we keep her on the Chesapeake in spring, fall & winter. cruise her to Maine in the summer. But for the past couple of years I've been so busy here we've had to leave her in Maine the year round."

The Expanding Dominion Stores

Supermarket Chain Enjoys Advantage Of Canadian Growth

ON A RECENT trip "south of the border" to talk finance with analysts on the southern tip of Manhattan, president Thomas McCormack of giant Canadian supermarket chain Dominion Stores Limited, admitted candidly his countrymen have been described as "imbued with the spirit of trying to keep up with the US Jones' next door."

But he added proudly: "It has been exceedingly good for Canada and Canadians * * * I see nothing wrong in adopting other people's tried and proven ideas, especially if you can improve on them and make them more efficient."

Following the adage has certainly been good for Tom McCormack's Dominion Stores. From its three-store beginning in 1919, the Toronto-based chain has become one of the largest food retailers in Canada. It operates 340 units in 184 communities across the Dominion from Halifax to Vancouver. Its balance sheet shows total assets of over $70,000,000; current sales "exceed an annual rate of $350,000,000" and average annual sales a unit are over $1,000,000.

Catering to Canadian customers Dominion enjoys a number of advantages over its US counterparts. Tom McCormack explains: "Despite Canada's vast geographic size, it has a far more concentrated population than the US. As a result in terms of urban marketing it is tailor-made for the supermarket and for supermarket chain operations in particular." Canada's 88 largest cities account for 70% of total retail sales volume; in the US it takes the 502 largest cities to corner only 62% of total retail sales.

Moreover, Canadian grocers stand to benefit from a "habit-lag" in Canadian buying patterns. "There lies a huge accumulated and undeveloped potential in food sales as a result of the rapid advance of families into higher income groups without a corresponding degree of change in food buying habits."

Paralleling this trend there has also been a substantial shift from independent to chain store shopping. In 1946 chain stores accounted for 28% of Canada's retail food sales; by 1958 their share had risen to 45%. And grocer McCormack happily predicts: "The Canadian food chain can still look forward to a substantially increased share of a substantially increased total volume."

Another tasty advantage: for the time being at least Canadian supermarkets enjoy plumper profit margins than their American neighbors. The reason: "As yet rent, wages, general costs of doing business are not as high * * * and the general level of competition in Canada has seldom descended to a stage of bitter price-cutting."

However the profit edge is narrowing. In the 26-week period ended last September, Dominion earned $3,590,000 or $2.22 a share on sales

of $173,000,000 for a 2.07% profit margin. However in the corresponding period the year before it earned $3,260,000 ($2.02 a share) on $150,000,000—a 2.17% margin. Comments president McCormack: "The supermarket industry is in an era of diminishing returns * * * committed to a high-volume, low-margin twilight existence. Added sales today do not carry a proportionate increase in profits because of the higher expenses necessary to achieve them. However the added profits are still substantial in dollars."

To insure added sales and profit dollars, Dominion follows an aggressive expansion program. In the past ten years, the chain opened 260 new units, closed 150 smaller ones. However "as a hedge against any down-curve in economic activity we have continued to operate quite a number of small and unpretentious stores in smaller cities and towns."

By the end of the March fiscal year Dominion will have opened 17 new stores. In the next three years it hopes to add 75 more, close 10-to-15 a year. Retailer McCormack explains: "Today's modern supermarket is outmoded the morning it opens its doors for business. We are on the treadmill of competitive planned obsolescence."

The new Dominion stores allow for expansion of non-food lines, currently 20% of volume. "We need them to provide the 'one-stop-shop,' give us higher margins. The horizons are unlimited."

Many of Dominion's new stores (cost: about $500,000 a unit) are financed on a buy-build-sell-lease arrangement with insurance companies. However, the chain has done its share of funded debt financing; three series of debentures totaling $20,425,000 stand ahead of the 1,610,000 shares of common stock, 24% of which is held by Canadian investment trust Argus Corp. The equities currently trade around 88 on the Toronto Stock Exchange.

Based on this price tag the $1.25 in dividends paid in the last twelve months makes for a meager 1.4% yield. Tom McCormack comments: "Our dividend policy has been called 'parsimonious' but we believe shareholders' best interests are protected by regeneration of earnings."

Looking ahead supermerchant McCormack notes: "We are in an era of solid achievement which indicates the industry in general and Dominion Stores in particular is a good bet for today—and tomorrow."

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STANLEY HOME SUCCESS

Like most of the 25,000 Stanley Home Products Inc distributors this attractive seller is a "quota dealer"—a housewife who wants to supplement her income with the 30% sales commission offered on Stanley's array of brushes, mops, cosmetics and cleaning compounds. However about 15% of Stanley dealers are full-fledged "career women" and Stanley president & co-founder Catherine L O'Brien—a career woman herself—says they account for "about 35% of our business."

While each dealer may have her own personal touch, the approach is generally the same. She arranges a demonstration in the home of a local housewife who acts as hostess and invites her friends and neighbors to a party. Stanley thanks the hostess with a premium.

The popular hostess party is Stanley's sole method of distribution but it has proved a good one. Since War II sales have expanded 2½ times. For the year just ended they are estimated around $55,000,000. This is 2% ahead of 1957 which was somewhat depressed because the Asian Flu epidemic curtailed hostess parties in what Stanley considers its peak season. Profits however eased a bit last year due to higher distribution, selling and freight costs, are figured around $4.25 on the 573,000 shares v $4.98 in 1957. Peak year was 1949 with $5.38 a share. For 1959 sales are estimated around 10% higher but profits are not expected to climb as much. Meanwhile the company is trying to keep costs down by "cutting out non-essential products and eliminating unnecessary expenses. We have had a management consultant firm in to help us cut costs. And we try not to have to boost our prices."

Stanley makes its entire product line (the premium items are bought) at three plants in Easthampton, Mass, London, Ontario, and Mexico City, maintains distribution warehouses from coast to coast and in Hawaii, Canada, the West Indies and South America. This year it plans a new distribution center in hometown Westfield, Mass, others in Cuba and Venezuela. If all goes well it hopes to break ground for a $500,000 plant in Brazil.

TAX-FREE

Who pays for your community's public schools, streets, waterworks, hospitals? As a taxpayer, you do, of course. But it isn't quite that simple.

Suppose your community needs a new school. It may take thirty years to accumulate the necessary funds from taxes, but the community can't wait thirty years for the school to be built—nor can the architect and builder be expected to wait thirty years for payment. So what happens?

Your community votes to borrow money from the public by means of a bond issue, with bonds that mature from one to thirty years in the future and that pay interest in the meantime. Thus the bonds can be retired and the interest paid out of current tax collections, year by year.

Once the bond issue is voted, your community gets financial companies (such as Merrill Lynch) to bid on the issue, underwrite it, and offer it for sale to the general public. Result: Your community has funds to build its school immediately and the right to pay for it gradually over the years.

Perhaps you would like to know more about the way states, cities, and other groups raise funds for community developments by issuing municipal bonds; about why municipals are well regarded by conservative investors; and how it happens that *interest on them is exempt from present federal income tax*. Ask for our new booklet "Investing for Tax-Exempt Income: The Story of Municipal Bonds." It's free, and there are no strings attached.

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